

Analyzing Credit Needs and Graduation of Borrowers

- I. General. This instruction supplements RD Instruction 1951-F, Analyzing Credit Needs and Graduation of Borrowers.
- II. Paragraph 1951.263(a)(4)(ii)

The following timetables and reporting requirements are established to facilitate the orderly review of borrowers.

A. Water and Waste and Community Facilities Programs

1. By June 1st of each year, the survey of the lender criteria and policies will be forwarded to the Area Directors.
2. Paragraph 1951.263(b). Initial screening shall be completed by June 20th of each year. The graduation review list including documentation requirements of paragraph 1951.263(b)(5) will be forwarded to the Program Director no later than June 30th of each year. An important aspect of the graduation review process is the documentation of the borrower's financial circumstances based upon a factual analysis of the borrower's financial statements, general observations of management, and other pertinent management data as may be appropriate for the particular case under review.

Equally important is the assembly of information related to the minimum lender criteria common to each Area. Factual information which clearly indicates the criteria used by local lenders in each jurisdiction must be assembled by each Area Director and used to supplement the lender information provided by the Program Director.

To aid in appropriately documenting decisions, Virginia Instruction 1951-F, Exhibit A, must be used. This exhibit may be modified as appropriate for the particular case under review. For initial reviews, items denoted by an asterisk (*) must be completed for each case eligible for review and a copy of the exhibit placed in the case folder.

3. Paragraph 1951.263(b)(3). Policy regarding borrowers indebted for water and waste and community facilities loans in Virginia.

Policy. All borrowers indebted for water and waste and community facilities loans are permitted by State statute to graduate. Therefore, all borrowers will be reviewed. The initial screening may categorically eliminate only those borrowers meeting the requirements of RD Instruction 1951.263(b)(1) through (3).

4. Public service authorities, such as water and sewer authorities and other type borrowers, have no such statutory restriction and, therefore, will be reviewed as prescribed by RD Instruction 1951-F.
5. Paragraph 1951.263(c). Thorough review shall be completed by December 15th of each year. Thorough reviews will be documented by the completion of Virginia Instruction 1951-F, Exhibit A, in its entirety. By December 30th of each year, forward the graduation review list, which includes the results of the thorough review, to the Program Director.

**WATER AND WASTE AND COMMUNITY FACILITIES
GUIDE FOR DOCUMENTATION OF GRADUATION REVIEW**

- *1. a. Date of Review _____ b. Type of Facility _____
c. Name of Borrower _____

2. Information from Balance Sheet dated _____

ASSETS

a. Current \$ _____

c. Long Term \$ _____

TOTAL \$ _____

LIABILITIES

b. Current \$ _____

d. Long Term \$ _____

TOTAL \$ _____

Net Worth \$ _____

- *3. Liabilities to be paid in more than twelve months:

<u>Creditor Loan No.</u>	<u>Unpaid Balance</u>	<u>Annual Payment</u>	<u>Rate, Years Remaining, Security</u>
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
TOTALS	\$ _____	\$ _____	

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4. Income and Expense information from statement dated _____

(Information is for Calendar Year _____, Fiscal Year _____)

	<u>Actual</u>	<u>Budget</u>	<u>Per Unit</u>
a. Gross revenue	\$_____	\$_____	\$_____
b. Deduct O&M expense	\$_____	\$_____	\$_____
c. Net from operation	\$_____	\$_____	\$_____
d. Deduct Govt. debt payment	\$_____	\$_____	\$_____
e. Deduct other debt payment	\$_____	\$_____	\$_____
f. Deduct capital expenditures paid from operating income	\$_____	\$_____	\$_____
g. Deduct reserve payments	\$_____	\$_____	\$_____
h. Balance remaining	\$_____	\$_____	\$_____

*5. Project Information:

a. Unit of Service: _____ b. Number of Units: _____

c. Median household income of service area: \$_____

d. Median non-metropolitan household income for State: \$_____

e. Annual unit cost for comparable facilities in similar communities within the state:

<u>Community</u>	<u>Annual Unit Cost</u>
_____	\$_____
_____	\$_____
_____	\$_____

6. Working Capital (2a minus 2b) \$ _____

Deduct:

- a. Restricted accounts \$ _____
- b. Reasonable O&M
(_____ days O&M expense) \$ _____
- c. Debt service
(_____ days debt service) \$ _____
- d. Capital expenditures
(essential) \$ _____
- e. Reserve funds
(cover short-term fluctuations) \$ _____
- f. Remaining working capital \$ _____

7. Funds Needed to Refinance:

- a. Total funds needed to refinance debts and to
obtain lien position required by investment lender \$ _____
- b. **Add** cost to obtain credit to refinance \$ _____
- c. **Add** credit for new capital expenditures \$ _____
- d. **Deduct** adjusted working capital (6f) \$ _____
- e. Credit required for refinancing \$ _____
- f. Estimated Payments for:

<u>Type Credit</u>	<u>Years</u>	<u>Rate</u>	<u>Debt Service</u>
_____	_____	_____	\$ _____
_____	_____	_____	\$ _____
_____	_____	_____	\$ _____
_____	_____	_____	\$ _____

- g. Total Payments \$ _____

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*8. Unemployment trend: Stable _____ Increasing _____ Declining _____

*9. Unit Base: Stable _____ Increasing _____ Declining _____

*10. Management: Adequate _____ Marginal _____ Poor _____

*11. Any defaults, monetary or technical? Yes _____ No _____

If yes, explain: _____

*12. Condition of Facility: Good _____ Fair _____ Poor _____

*** QUESTIONS 13 THROUGH 16: ANSWER ALL APPLICABLE QUESTIONS AND ATTACH THE REQUIRED DOCUMENTATION. THE APPLICABLE QUESTIONS MUST BE ANSWERED, AND DOCUMENTATION ATTACHED, DURING THE INITIAL SCREENING PROCESS.**

13. Based on information available on other credit, there are no lenders which would consider refinancing due to: ***ATTACH LENDER DOCUMENTATION TO SUPPORT ANSWER.***

_____ Amount needed
_____ Type of project
_____ Type of borrower
_____ Security to be offered by the borrower

14. The borrower:

_____ currently has no outstanding commercial debt
_____ has commercial debt, but the lenders are not interested in providing funds for refinancing. ***ATTACH DOCUMENTATION OF CONTACT WITH OTHER LENDER(S).***

15. Lenders would consider refinancing, but:

_____ the rates and terms offered by these lenders would not produce reasonable user rates. ***EXPLAIN OR ATTACH DOCUMENTATION.***

_____ the lenders have requirements that the borrower would be unable to meet, i.e., number of users, security, or debt service coverage. ***EXPLAIN OR ATTACH DOCUMENTATION.***

16. The possibility of refinancing has been discussed in detail with other lenders, and none expressed an interest. ***EXPLAIN OR ATTACH DOCUMENTATION.***

FINAL DETERMINATION

*A. Initial Review Date: _____

Decision: _____ No further action
 _____ Eligible for thorough review
 _____ Additional information needed
 Date Requested: _____
 Date Received: _____

Justification for decision: _____

B. Thorough Review Date: _____

Action: Release from further activity: Yes _____ No _____

Justification for decision: _____

Trial referral: Yes _____ No _____

To whom referred: _____

Date Response Received: _____

Comments: _____

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C. Graduation recommended: Yes _____ No _____

Justification for decision: _____

Area Director

cc: State Director, Rural Development

NOTE: All thorough reviews must be completed and submitted to the Program Director by
December 31st of each year.

**Instructions for Review Worksheet
(Numbers correspond with worksheet)**

1. Complete a separate worksheet for each facility.
3. All debts with a final due date exceeding twelve months should be listed in Section 3. If the current portion of these debts are listed separately on the borrowers balance sheet, you should add the current portion to the debt and adjust the figure for current liabilities.
4. Obtain figures for the most recent fiscal year and a budget for the current fiscal year. Divide the annual budget figure by the number of units provided by the facility.
 - f. Do not include capital purchases that should be paid for with borrowed funds or reserve account funds.
 - g. If reserve accounts are fully funded, the amount for reserve will be zero on the budget.
5. Ordinarily, a unit of service for utility systems will be the number of equivalent residential users. For non-utility facilities, the unit may be the predominate unit of services. Typical non-utility units are: for a hospital, nursing home, and residential care facilities = number of beds; for schools = number of students; for outpatient health care = number of visits; and for fire, rescue, library, government = number of households in service area.
6. Working capital should only include current assets that are available. Deduct any asset set aside in a charge-off account or considered uncollectible. Ordinarily, borrowers expect to pay usual operating and maintenance and debt service from current assets and future net revenue.
 - d. An explanation is required when funds are used for a capital expenditure other than maintenance of facilities or to continue providing quality service to customers.
7. In reaching a conclusion on the ability of a borrower to secure financing, reorganization of the entire debt structure must be considered.